Financial Statements

Contents

Directors' Report

For the year ended 30 June 2007

The Board of Directors of Integral Energy (the Corporation) have pleasure in submitting the accounts of the economic entity for the period 1 July 2006 to 30 June 2007, and the independent audit report thereon.

1. General information

(a) Directors

The names of Directors in office at any time during the year are shown on page 57.

Details of meetings and attendance by Directors are shown in the Corporate Governance section on page 56.

(b) Principal Activities

The principal activities of the Corporation during the course of the period ended 30 June 2007 were the purchase, distribution and sale of electricity, meter data provision and maintenance, and the construction and management of electricity distribution assets.

2. Business review

(a) Operating Results

The after tax profit of the Corporation for the year was $153.2m.

3. Other items

(a) State of Affairs

The Corporation operates in the New South Wales, Victoria, ACT, Queensland, South Australia and Tasmanian electricity industry in its own right under the provisions of the *Electricity Supply Act 1995*, and in the national electricity market.

The financial statements for the Corporation for the period ending 30 June 2007 are presented on pages 60 to 94 inclusive.

(b) Events Subsequent to Balance Date

The valuation of derivatives is subject to market volatility. A review of forward market prices has been performed subsequent to year end. An analysis of forward market prices as at 31 July 2007 indicated that the value of the Corporation's electricity derivative hedge reserve had decreased by approximately $365 million.

With the exception of electricity derivatives, there has not arisen, in the interval between the end of the financial period and the date of this report, an event of a material and unusual nature likely, in the opinion of the Directors of the Corporation, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity, in subsequent financial years.

(c) Likely Developments

The Corporation will pursue its vision *"to be Australia's leading energy business"*, by focussing on delivering superior value to our customers and our shareholders, now and into the future. The Corporation's network business purpose is to *"provide long term customer service by developing and operating a sustainable and reliable network"*, while the retail business is focussed on *"maximising the long term value of the retail business"*.

Further information about likely developments in the operations of the Corporation and the expected results of those operations in subsequent financial years has not been included in this report, as the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the Corporation.

(d) Directors' Benefits

During the period no Director of the Corporation has received, or become entitled to receive, any benefits by reason of a contract made by the Corporation or a related body corporate with a Director, or with a firm of which a Director is a member, or with an entity in which a Director has a substantial interest.

(e) Environmental Regulation Performance

The Corporation's environmental and waste discharge obligations are regulated under both State and Federal Law. All environmental performance obligations are monitored by the Environmental Steering Committee and subjected, from time to time, to Government agency audits and site inspections. The Corporation has a policy of at least complying, but in most cases exceeding, its environment performance obligations.

(f) Rounding of amounts

Amounts in the financial statements have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

Signed in accordance with a resolution of the Directors:

Michael McLeod
Director
4 September 2007

Richard Powis
Director
4 September 2007

Independent Audit report

For the year ended 30 June 2007

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

INTEGRAL ENERGY AUSTRALIA

To Members of the New South Wales Parliament

I have audited the accompanying financial report of Integral Energy Australia (the Corporation), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of Integral Energy Australia as of 30 June 2007, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005
- also complies with International Financial Reporting Standards as disclosed in Note 2b.

The Responsibility of Directors' for the Financial Report

The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2b, the director's also state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements', that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Corporation,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

S R Stanton
Director, Financial Audit Services

10 September 2007
SYDNEY

Income Statement

For the year ended 30 June 2007

	Notes	**2007 $'000**	2006 $'000
Revenue	4	**1,387,812**	1,280,455
Other income	4	**149,679**	153,804
Expenses excluding finance costs	5	**(1,191,114)**	(1,134,041)
Finance costs	5	**(107,182)**	(96,417)
Profit before income tax		**239,195**	203,801
Income tax expense	6	**(85,986)**	(65,213)
Profit for the year		**153,209**	138,588

The above statement should be read in conjunction with the accompanying notes.

Balance Sheet

As at 30 June 2007

	Notes	**2007 $'000**	2006 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**45,460**	1,211
Trade and other receivables	10	**309,732**	173,754
Inventories	11	**20,654**	19,576
Derivative financial assets	22(f)	**294,473**	18,471
Estimated revenue from unread meters	2(g)	**61,623**	86,771
Emission rights	2(x)	**15,447**	7,235
		747,389	307,018
Non-current assets classified as held for sale	12	**11,180**	11,180
Total current assets		**758,569**	318,198
Non-current assets			
Property, plant and equipment	13	**3,066,117**	2,743,629
Deferred tax assets	7	**82,557**	73,626
Intangible assets	14	**47,909**	39,093
Derivative financial assets	22(f)	**191,872**	4,863
Total non-current assets		**3,388,455**	2,861,211
TOTAL ASSETS		**4,147,024**	3,179,409
LIABILITIES			
Current liabilities			
Trade and other payables	16	**330,600**	187,076
Interest-bearing loans and borrowings	18	**355,890**	393,164
Current tax payable		**219**	13,975
Provisions	19	**104,206**	129,521
Provision for dividend	2(w)	**107,033**	103,866
Derivative financial liabilities	22(f)	**42,368**	2,410
Other	17	**33,382**	27,568
Total current liabilities		**973,698**	857,580
Non-current liabilities			
Interest-bearing loans and borrowings	18	**1,175,567**	988,451
Deferred tax liabilities	7	**561,983**	347,522
Derivative financial liabilities	22(f)	**14,576**	5,345
Provisions	19	**85,010**	83,051
Other	20	**12,230**	14,056
Total non-current liabilities		**1,849,366**	1,438,425
TOTAL LIABILITIES		**2,823,064**	2,296,005
NET ASSETS		**1,323,960**	883,404
EQUITY			
Contributed equity		**335,046**	335,046
Reserves		**847,501**	453,124
Retained earnings		**141,413**	95,234
TOTAL EQUITY		**1,323,960**	883,404

The above statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2007

Year ended 30 June 2007	Contributed Equity $'000	Retained Earnings $'000	Asset Revaluation Reserve $'000	Hedge Reserve $'000	Total $'000
Equity as at beginning of financial year	**335,046**	**95,234**	**443,378**	**9,746**	**883,404**
Changes					
Asset revaluation	**–**	**–**	**29,572**	**–**	**29,572**
Swap hedge revaluation	**–**	**–**	**–**	**533,826**	**533,826**
Income tax on items taken directly to equity	**–**	**–**	**(8,870)**	**(160,148)**	**(169,018)**
Transfers to and from reserves					
Transfers from retained earnings	**–**	**3**	**(3)**	**–**	**–**
Net income recognised directly in equity	**–**	**3**	**20,699**	**373,678**	**394,380**
Profit for the year	**–**	**153,209**	**–**	**–**	**153,209**
Total recognised income & expense for the year	**–**	**153,212**	**20,699**	**373,678**	**547,589**
Dividends paid or provided for	**–**	**(107,033)**	**–**	**–**	**(107,033)**
Equity as at 30 June 2007	**335,046**	**141,413**	**464,077**	**383,424**	**1,323,960**

Year ended 30 June 2006	Contributed Equity $'000	Retained Earnings $'000	Asset Revaluation Reserve $'000	Hedge Reserve $'000	Total $'000
Equity as at beginning of financial year	335,046	48,032	507,290	–	890,368
Capital contribution accounting error	–	–	(464)	–	(464)
Changes					
Asset revaluation	–	–	27,244	–	27,244
Asset impairment	–	–	(117,894)	–	(117,894)
Swap hedge AIFRS opening balance adjustment (AASB 139)	–	–	–	2,283	2,283
Swap hedge revaluation	–	–	–	11,640	11,640
AIFRS opening balance adjustment relating to cash flow hedges recognised directly in equity (AASB 139)	–	(6,830)	–	–	(6,830)
AASB 139 loans/discounts	–	19,317	–	–	19,317
Income tax on items taken directly to equity	–	–	27,195	(4,177)	23,018
Transfers to and from reserves					
Transfers from retained earnings	–	(7)	7	–	–
Net income recognised directly in equity	–	12,480	(63,912)	9,746	(41,686)
Profit for the year	–	138,588	–	–	138,588
Total recognised income & expense for the year	–	151,068	(63,912)	9,746	96,902
Dividends paid or provided for	–	(103,866)	–	–	(103,866)
Equity as at 30 June 2006	335,046	95,234	443,378	9,746	883,404

The above statement should be read in conjunction with the accompanying notes.

Cash Flow Statement

For the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
Cash flows from operating activities:			
Receipts from customers		**1,506,962**	1,476,755
Payments to suppliers and employees		**(962,408)**	(1,094,358)
Interest received		**1,083**	484
Interest paid		**(101,688)**	(90,894)
Income taxes paid		**(61,561)**	(72,868)
Net cash provided by/(used in) operating activities	8(a)	**382,388**	219,119
Cash flows from investing activities:			
Proceeds from sale of plant and equipment		**7,589**	7,234
Purchase of property, plant and equipment		**(381,662)**	(336,474)
Net cash provided by/(used in) investing activities		**(374,073)**	(329,240)
Cash flows from financing activities:			
Proceeds from borrowings		**215,000**	190,000
Repayment of borrowings		**(75,200)**	(8)
Dividends paid		**(103,866)**	(114,132)
Net cash flows from/(used in) financing activities		**35,934**	75,860
Net increase/(decrease) in cash and cash equivalents		**44,249**	(34,261)
Cash and cash equivalents at beginning of the financial year		**1,211**	35,472
Cash and cash equivalents at end of the financial year	9	**45,460**	1,211

The above statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the year ended 30 June 2007

1 Corporate Information

The financial report of Integral Energy Australia for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the Directors on 4 September 2007.

Integral Energy Australia is a state-owned energy Corporation, incorporated in New South Wales under the *Energy Services Corporations Act 1995*. Integral Energy Australia's registered office is 51 Huntingwood Drive, Huntingwood NSW 2148.

The nature of the operations and principal activities of the Corporation are described in the Directors' Report.

2 Statement of Significant Accounting Policies

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of applicable Australian Accounting Standards, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and the *Regulation 2005* and Accounting Interpretations.

This report has been prepared on a going concern basis which assumes that Integral Energy will be able to pay its debts as and when they fall due, and continue operation without any intention or necessity to liquidate or otherwise wind up its operation.

The Corporation is classified as a for-profit entity for the purposes of the application of Australian Accounting Standards and after consideration of all factors contained in New South Wales Treasury Policy TPP 05-4 *Distinguishing For-Profit from Not-For-Profit Entities*.

The financial report has been prepared on a historical cost basis, except for property, plant and equipment, and derivative financial instruments which have been measured at fair value, and except where stated, does not take into account changing money values.

Amounts in the financial report are rounded to the nearest thousand dollars. The financial report is presented in Australian dollars.

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Integral Energy has assessed the new Australian Accounting Standards that have recently been issued or amended but are not yet effective or applied. It has been determined that these new accounting standards will have no material impact on the financial statements in the period of initial application.

(c) Foreign currency translation

Both the functional and presentation currency of Integral Energy Australia is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All resulting exchange differences arising on settlement or re-statement in the financial report are recognised as income and expenses in the Income Statement.

(d) Cash and Cash Equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in hand, short-term deposits readily convertible to cash, investments for a fixed term where the maturity date is three months or less from year end balance date, and readily tradeable investments which are likely to be converted to cash within three months of year end balance date even though the maturity date may be greater than three months from year end balance date.

Cash and cash equivalents are net of outstanding bank overdrafts. Bank overdrafts are carried at the principal amount and interest is charged as an expense as it accrues.

(e) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Allowance for impairment is based on an estimate of probable non-payment. Bad debts are written off when identified.

(f) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

(i) Raw materials – purchase cost on weighted average cost; and

(ii) Finished goods and work-in-progress – cost of direct material, labour and a proportion of manufacturing overheads based on normal operating capacity.

(g) Unread meters

At reporting date, Integral Energy accrues an estimate of electricity consumed where the meter has not been read. The basis used to estimate unread meters is consistent with prior years. This calculation is recognised as revenue on unread meters in the Income Statement.

(h) Recoverable amount of assets

At each reporting date, Integral Energy assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the corporation makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Notes to the Financial Statements

For the year ended 30 June 2007

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the assets' value in use cannot be estimated to be close to its fair value less costs to sell, and it does not generate cash inflows that are largely independent of those from other assets or corporations of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(i) Property, plant and equipment

System assets have been valued at the lower of the Optimised Depreciated Replacement Cost (ODRC) or recoverable amount in accordance with Australian Accounting Standard AASB 116 *Property, Plant and Equipment* and NSW Treasury Policy and Guidelines Paper TPP 07-1 *Valuation of Physical Non-Current Assets at Fair Value*. The ODRC valuation approach assumes an altered electrical distribution system configuration. This is achieved by valuing the network distribution system assets on the basis that the system is built to assumed engineering standards above that required to support the maximum possible electrical load. If excess capacity remains within this optimised system configuration, such capacity is valued at zero.

System land and non-system land and building assets are valued at the latest market valuation based on fair value of the asset.

Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is charged on a pro-rata basis for assets purchased or sold during the year. Depreciation rates are shown below.

Impairment

The carrying values of plant and equipment are reviewed for impairment annually when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Impairment losses are recognised in the Income Statement, where there is no corresponding entry in the Asset Revaluation Reserve.

Revaluation

Following initial recognition at cost, system and non-system land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

In respect of classes of assets for which there exists an active market, fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. In respect of classes for which there is no active market due to the specialised nature of the assets, fair value is determined as the lower of the estimated written down current replacement cost of the assets and their recoverable amount as determined using the cash generating unit test, being the discounted present value of the net cash inflows that the corporation expects to be generated from those assets, operating as a single cash generating operation over their expected useful lives.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the Balance Sheet, unless it reverses a revaluation decrement of the same asset previously recognised in the Income Statement. Any revaluation decrement is recognised in the Income Statement unless it directly offsets a previous increment of the same asset in the asset revaluation reserve.

Valuations are undertaken in accordance with NSW Treasury Policy and Guidelines Paper TPP 07-1 *Valuation of Physical Non-Current Assets at Fair Value*.

Disposal of assets

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Income Statement in the year the item is derecognised.

Independent valuations

Between independent valuations, the Directors review the carrying amount of assets at each reporting date to ensure they do not differ materially from the asset's fair value at that date.

In June 2002, Sinclair Knight Mertz (SKM) carried out a valuation of system property, plant and equipment, which was adopted as of 1 July 2005. An impairment test was then applied as per AASB136 *Impairment of Assets*, and the impaired value was adopted as of 1 July 2005, with necessary entries made to asset values. The impairment decrement resulting from the recognition of the new values has been recognised in the revaluation reserve.

Notes to the Financial Statements

For the year ended 30 June 2007

System land and non-system land and buildings are subject to independent valuation on a cyclical basis over a three year period. The valuation of system land and non-system land and buildings in 2006/07 was conducted by Edward Rushton Australia Pty Ltd.

Capitalisation threshold

Property, plant and equipment assets purchased below $500 are expensed in the year of acquisition.

Depreciation rates	%
Buildings	2.50 – 15.00
System plant and equipment	1.67 – 14.29
EDP equipment	10.00 – 25.00
Motor vehicles, mobile plant, unregistered plant	10.00
Radio communication equipment	14.29
Other non-system plant and equipment	4.29 – 33.33

The system asset revaluation carried out at 1 July 2005 resulted in an impairment of assets and a significant increase in the average effective lives of assets.

(j) Non-current assets held for sale

Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

(k) Intangible assets

Intangible assets acquired separately are capitalised at cost. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the Income Statement. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

A summary of the policies applied to the Corporation's intangible assets is as follows:

	Software	Easements
Useful lives	Finite	Indefinite
Amortisation method used	4 to 9 years – straight line	Not depreciated or revalued
Internally generated/acquired	Internally generated/acquired	Acquired
Impairment test/recoverable amount testing	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists

Easements are an interest in land allowing access for transmission lines. As no time period is attached to the easements, they are considered to have an indefinite life and are not amortised.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

(l) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the Income Statement over the lease term.

(m) Finance costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and Government guarantee fee. Borrowing costs are recognised in the income statement in the period in which they are incurred.

Notes to the Financial Statements

For the year ended 30 June 2007

(n) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the Income Statement when the liabilities are derecognised, or through the amortisation process.

(o) Provisions

Provisions are recognised when the corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(p) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Revenue from ordinary activities

Revenue from ordinary activities comprises revenue earned from the provision of energy products and other ancillary services to entities outside the Corporation. Revenue is recognised when energy products and services are provided to the consumer. Metered energy supply is recognised when the meters are read, and an estimate is brought to account where meters have not been read (refer Note 2(g)). Network use of system charges are invoiced to out-of-area retailers following the reading of meters of customers within the franchise area who are contracted to external retailers. Network use of system income is recognised on an accrual basis, as revenue is accrued for consumption which is not invoiced at month end.

Interest receivable and other revenue from operating activities is brought to account as it is earned, and is recognised when goods and services are provided.

Developer or customer contributions of non-current assets are recognised as revenue and an asset when Integral Energy gains control of such contributions. The amount recognised is the fair value of the contributed asset at the date on which control of such assets is gained. A developer or customer cash contribution is recognised as revenue when the network is extended or modified consistent with the terms of the contribution.

Other revenue, outside the provision of energy products, is recognised on an accrual basis and in accordance with the substance of the agreement covering such transactions.

Revenue recognition from rendering of services

In conjunction with the transition to Australian equivalents to International Financial Reporting Standards referred to in note 2(b), the Corporation completed a detailed review of all accounting policies.

In accordance with AASB118 *Revenue*, revenue from Retail electricity supply contracts is required to be recognised by reference to the stage of completion of the contract. As a result, with effect from 1 July 2005, revenue from these contracts has been recognised by reference to the stage of completion of the contract. The stage of completion is measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract. In addition, where a loss is expected to occur it is recognised immediately and provision is made for both services performed to date and for future services under the contract.

The financial impact on the current period results in a decrease in revenue of $1.86m (2005/06 $9.07m), which increases the balance in other current liabilities to $10.93m (2005/06 $9.07m).

(ii) Other income outside ordinary activities

Surplus or deficit arising out of revaluation of the superannuation pooled funds held by Energy Industries Superannuation Scheme is recognised when notified of such event by the trustees (refer Note 2(s)(ii)).

Revenue arising from the sale of assets is recognised when the entity has passed control of the goods, and the amount of revenue can be measured reliably.

(q) Income Tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Notes to the Financial Statements

For the year ended 30 June 2007

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Income Statement.

Since 1 July 2001, Integral Energy has been subject to the National Taxation Equivalent Regime (NTER) based on the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997*. Tax equivalents are payable to the Office of State Revenue.

(r) Other taxes

FBT, payroll tax and land tax are recognised in accordance with relevant legislation. In relation to GST, revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(s) Employee Benefits

(i) General

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. Long service leave and maturing allowance provisions have been based on an actuarial assessment undertaken by Cumpston Sarjeant Pty Limited as at 30 April 2007 and the associated formulae provided for intervening periods between assessments.

Cumpston Sarjeant Pty Limited has based their assessment on the following assumptions:

(a) Rate of investment return (after tax and investment related expenses) 6%; and

(b) Rate of general salary increase 4%.

Liability for employee benefits (long service leave and maturing allowance) which are not expected to be settled within twelve months are discounted at 6% per annum, based on 10 year Government bond rates.

All other provisions have been calculated at nominal amounts based on expected settlement rates.

(ii) Superannuation

The Corporation's contributions to employee superannuation are expensed at the time of payment. An actuarial assessment of funds held by the Energy Industries Superannuation Scheme on behalf of Integral Energy Australia was performed during the year by the scheme's actuary.

The actuary adopted the following assumptions:

	2005/06 %	**2006/07 %**	Thereafter %
Rate of investment return	17.9	**14.6**	7.5
Rate of salary escalation	4.0	**6.0**	6.0*
Rate of CPI increase	2.5	**2.5**	2.5

* The rate of salary escalation is assumed to be 6.0% until June 2009, and then 4.0% thereafter.

(t) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the corporation no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(u) Derivative financial instruments

Integral Energy uses derivative financial instruments to hedge its risks associated with National Electricity Market (NEM) pool price exposures and movements in interest rates. Such derivative financial instruments are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction. In relation to fair value hedges which meet the conditions for special hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the Income Statement.

Notes to the Financial Statements

For the year ended 30 June 2007

Any gain or loss attributable to the hedged risk on remeasurement of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the Income Statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the Income Statement such that it is fully amortised by maturity.

In relation to cash flow hedges to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the Income Statement. When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the Income Statement in the same period in which the hedged firm commitment affects the net profit and loss, for example when the future sale of electricity actually occurs. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year. Fair value has been determined at year end by performing mark to market calculations on the cash flow hedges using financial market rates available. The total amount of the change in fair value recognised was a profit of $3.6m.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

(v) Workers compensation insurance

Integral Energy is a self-insurer through its insurance provision for workers compensation and meets all liabilities under the *Workers Compensation Act 1987*.

During 2006/07 a consulting actuary, David A Zaman Pty Limited, undertook the annual investigation of Integral Energy's estimated liability for workers compensation as at 30 June 2007. The liability is measured as the present value of future payments, and as at 30 June 2007, was estimated to be $7.0m ($5.0m in 2005/06), including the liability for dust related diseases which is estimated to be minimal.

(w) Dividend

Dividend distribution is based on 70% of profit after tax, adjusted for non-cash AIFRS adjustments relating to superannuation actuarial gains/ losses and fair value movements in financial instruments, as per correspondence received from NSW Treasury.

(x) Greenhouse legislation

The *Commonwealth Renewable Energy (Electricity) Act 2000* imposes on electricity retailers the obligation to "surrender" sufficient certificates each year to meet the Commonwealth Government's strategy to lift Australia's use of electricity generated from renewable sources. This imposes an obligation on Integral Energy to purchase Renewable Energy Certificates (RECs) and surrender them to the Office of the Renewable Energy Regulator in discharge of Integral Energy's renewable energy obligations. These certificates are accounted for as "other assets" and, as such, are reviewed for impairment and carried at the lower of cost or net realisable value at the close of the reporting period.

The *NSW Electricity Supply Amendment (Greenhouse Gas Emission Reduction) Act 2000* imposes on electricity retailers the obligation to "surrender" sufficient certificates each year to satisfy the State Government's strategy to reduce greenhouse gas per capita emissions from electricity purchases. This imposes an obligation on Integral Energy to purchase or produce NSW Greenhouse Abatement Certificates (NGACs) and surrender them to the Independent Pricing and Regulatory Tribunal (IPART) in discharge of Integral Energy's greenhouse gas emission reduction obligations.

Integral Energy accounts for the certificates under AASB 102 *Inventories*. Certificates which are created and held for sale are recognised initially at the point of registration and measured at the registration fee paid. Certificates which are purchased and held for sale are recognised initially at the point of acquisition and measured at cost, being the fair value of the consideration paid. They are subsequently measured at the lower of cost and net realisable value. The profit on sale is recognised when the entity delivers the certificates under an agreement or sells them. The surrender of these certificates will be recognised in the underlying purchase commitment as an element of electricity purchase costs.

Notes to the Financial Statements

For the year ended 30 June 2007

3 Segment information

Business segments: The corporation operates in a single business segment, that being the distribution and retail of energy.

Geographical segments: The Corporation operates within a single geographical sector, Australia.

4 Revenue

	2007 $'000	2006 $'000
Revenues		
Metered sales of electricity	**1,010,739**	923,897
Estimated revenue on unread meters	**61,623**	86,771
Street lighting	**2,653**	1,992
Total electricity sales	**1,075,015**	1,012,660
Network use of system income	**293,060**	247,171
Reimbursement of community service obligations	**19,737**	20,624
Sales revenue	**1,387,812**	1,280,455
Other income	**90,635**	72,264
Interest income	**1,083**	484
Superannuation (Defined Benefits) actuarial gain	**–**	24,343
Financial Instruments – fair value movements	**3,600**	5,759
Capital contributions	**54,361**	50,954
Other income	**149,679**	153,804
Total revenue and other income	**1,537,491**	1,434,259

Notes to the Financial Statements

For the year ended 30 June 2007

5 Expenses

	2007 $'000	2006 $'000
Amount set aside to provisions		
Allowance for impairment	**6,936**	4,310
Employee benefits	**119,839**	78,093
Other provisions	**17,224**	19,421
Total amount set aside to provisions	**143,999**	101,824
Other expenses relating to operating activities		
Bad debts written off	**5,646**	6,232
Consultants	**2,415**	2,277
Contractors	**46,667**	49,201
Employee benefits	**55,598**	98,249
Superannuation contributions	**22,832**	18,580
Superannuation (Defined Benefits) actuarial loss	**3,165**	–
Operating lease rentals	**1,341**	1,880
Net loss on disposal of property, plant and equipment	**1,942**	3,122
Retailing and distribution of electricity and other services	**787,147**	736,043
Total other expenses relating to operating activities	**926,753**	915,584
Depreciation of non-current assets		
Buildings	**3,003**	2,308
System plant and equipment	**83,608**	80,520
EDP Equipment	**5,601**	5,402
Motor vehicle, mobile plant, unregistered plant	**7,733**	7,092
Radio communication equipment	**249**	85
Other non system equipment	**3,665**	3,253
Total depreciation of non-current assets	**103,859**	98,660
Amortisation of intangible assets		
Software	**16,503**	17,973
Total amortisation of non-current assets	**16,503**	17,973
Total depreciation and amortisation expense	**120,362**	116,633
Total expenses from operating activities	**1,191,114**	1,134,041
Finance costs		
Gross interest expense	**86,692**	72,207
Net amortisation of discounts/premiums on loans	**10,042**	14,214
Other interest expense	**10,448**	9,996
Total finance costs	**107,182**	96,417

Notes to the Financial Statements

For the year ended 30 June 2007

6 Income Tax

(a) Income tax expense recognised in the Income Statement

	2007 $'000	2006 $'000
Current tax expense		
Current year	**47,795**	64,487
Adjustments for prior years	**1,676**	(9,834)
	49,471	54,653
Deferred tax expense		
Origination and reversal of temporary differences	**24,209**	10,560
Under provided in prior years	**12,306**	–
	36,515	10,560
Total income tax expense in Income Statement	**85,986**	65,213

(b) Numerical reconciliation between tax expense and pre-tax net profit

	2007 $'000	2006 $'000
Profit before tax	**239,195**	203,801
Income tax using the domestic corporation tax rate of 30% (2006: 30%)	**71,758**	61,140
Increase in income tax expense due to:		
Non-deductible expenses	**246**	267
Under/(over) provided in prior years	**13,982**	3,806
Income tax expense on pre-tax net profit	**85,986**	65,213

(c) Deferred tax recognised directly in equity

	2007 $'000	2006 $'000
Relating to Swap Hedge Revaluation Reserve	**(160,148)**	(4,177)
Relating to revaluation of property, plant and equipment	**(8,870)**	27,195
	(169,018)	23,018

Notes to the Financial Statements

For the year ended 30 June 2007

7 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Non-current assets (per Fixed Asset Register)	**–**	–	**418,226**	305,990	**418,226**	305,990
Assets held for resale	**–**	–	**2,829**	2,829	**2,829**	2,829
Deferred income and interest	**(3,959)**	(4,781)	**3,982**	–	**23**	(4,781)
Accrued expenses	**–**	(2,269)	**–**	–	**–**	(2,269)
EISS superannuation	**–**	–	**10,457**	8,495	**10,457**	8,495
Unread meters	**–**	–	**18,487**	26,031	**18,487**	26,031
Provisions	**(61,515)**	(66,576)	**–**	–	**(61,515)**	(66,576)
Swap Hedge Reserve	**(17,083)**	–	**108,002**	4,177	**90,919**	4,177
Gross deferred tax (assets)/liabilities	**(82,557)**	(73,626)	**561,983**	347,522	**479,426**	273,896

Movement in temporary differences	Balance 1 July 2006 $'000	Recognised in income $'000	Recognised in equity $'000	Balance 30 June 2007 $'000
Non-current assets (per Fixed Asset Register)	305,990	103,366	8,870	418,226
Assets held for resale	2,829	–	–	2,829
Deferred income & interest	(4,781)	4,804	–	23
Accrued expenses	(2,269)	2,269	–	–
EISS superannuation	8,495	1,962	–	10,457
Unread meters	26,031	(7,544)	–	18,487
Provisions	(66,576)	5,061	–	(61,515)
Swap Hedge Reserve	4,177	(73,406)	160,148	90,919
Tax (assets)/liabilities	273,896	36,512	169,018	479,426

Notes to the Financial Statements

For the year ended 30 June 2007

8 Cash Flow Information

(a) Reconciliation of Cash Flows from Operating Activities with Profit After Tax

	2007 $'000	2006 $'000
Profit after tax	**153,209**	138,588
Adjustments for:		
Depreciation non-current assets	**103,860**	98,660
Amortisation non-current assets	**16,503**	17,973
Amortisation of discounts/premiums	**10,042**	14,214
Asset write-off	**–**	272
Non cash capital contributions	**(52,593)**	(47,963)
Net loss on disposal of property, plant and equipment	**1,943**	3,122
Provision for obsolete transformers	**(136)**	(977)
Defined superannuation adjustment	**3,165**	(24,343)
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**(156,520)**	(22,998)
(Increase)/decrease in unread meters	**25,148**	7,976
(Increase)/decrease in derivative assets	**(63,988)**	(23,334)
(Increase)/decrease in inventories	**(1,078)**	(3,618)
(Increase)/decrease in other assets	**(8,212)**	(2,002)
(Increase)/decrease in deferred tax assets	**(8,931)**	86
Increase/(decrease) in trade and other payables	**298,299**	18,393
Increase/(decrease) in provisions	**(29,706)**	59,637
Increase/(decrease) in current tax balances	**(13,756)**	(16,745)
Increase/(decrease) in deferred tax liabilities	**51,962**	(19,063)
Increase/(decrease) in derivative liabilities	**49,189**	7,755
Increase/(decrease) in other liabilities	**3,988**	13,486
Net cash flows from operating activities	**382,388**	219,119

Notes to the Financial Statements

For the year ended 30 June 2007

8 Cash Flow Information (continued)

(b) Financing Facilities

	2007 $'000	2006 $'000
Total facilities available		
The corporation has access to the following lines of credit:		
Bank overdraft	**2,000**	–
T-Corp short term accommodation	**60,000**	50,000
T-Corp loans	**1,800,000**	1,500,000
Inscribed stock	**2,505**	2,713
Total facilities available	**1,864,505**	1,552,713
Facilities utilised at reporting date		
Bank overdraft	**1,746**	–
T-Corp short term accommodation	**–**	–
T-Corp loans	**1,528,952**	1,378,902
Inscribed stock	**2,505**	2,713
Total facilities utilised at reporting date	**1,533,203**	1,381,615
Facilities unused at reporting date		
Bank overdraft	**254**	–
T-Corp short term accommodation	**60,000**	50,000
T-Corp loans	**271,048**	121,098
Inscribed stock	**–**	–
Total facilities unused at reporting date	**331,302**	171,098

Bank overdrafts

Interest on bank overdrafts is charged at prevailing market rates on any balance in excess of the approved overdraft on the Limit Facility of $2.0m. The total bank overdraft of the Corporation is unsecured. The bank overdraft is payable on demand and subject to annual review.

T-Corp short term accommodation

Integral Energy Australia has approval from the *Public Authorities (Financial Arrangements) Act 1987* ("PAFA Act") to obtain a $60 million short term accommodation (Come-and-Go facility) from T-Corp.

T-Corp loans

Integral Energy Australia has approval from the "PAFA Act" to obtain $1,800m loan funding from T-Corp. The loans are secured by a guarantee from the NSW Government and a government guarantee fee is payable by Integral Energy Australia to NSW Treasury. The guarantee fee payable is calculated in accordance with NSW Treasury Accounting Policy TPP04-2 *Government Guarantee Fee Policy for Government Businesses.*

The loans amount in current liabilities includes the portion of the Corporation's T-Corp loans payable within one year of $355.9m (2005/06: $393.0m). The non-current T-Corp loans are payable on or before 23 October 2017, with maturity dates ranging between one and ten years from reporting date. All T-Corp debt is fully payable on maturity with the majority being fixed rate loans.

Inscribed stock

Integral Energy Australia has borrowings by the issue of inscribed stock to private individuals, companies and various government bodies. There have been no new debt issues for this type of borrowing since November 1994.

The loans amount in current liabilities includes the Corporation's inscribed stock principal repayments to be made within one year of $0.07m (2005/06: $0.21m). The non current inscribed stock comprises principal repayments to be made on or before 14 February 2012, with repayment dates ranging between one and five years from reporting date. All inscribed stock are fixed rate loans and fully payable on maturity, with the exception of two loans which require half yearly principal repayments.

Notes to the Financial Statements

For the year ended 30 June 2007

9 Cash and Cash Equivalents

	2007 $'000	2006 $'000
Cash on hand	**32**	32
Bank overdraft	**(3,387)**	(451)
Other current financial assets	**48,815**	1,630
Total cash and cash equivalents	**45,460**	1,211

10 Trade and Other Receivables

	Note	2007 $'000	2006 $'000
Trade receivables		**137,289**	116,087
Allowance for impairment		**(12,989)**	(11,779)
		124,300	104,308
Other debtors		**138,800**	35,768
Allowance for impairment		**(908)**	(827)
		137,892	34,941
Prepayments – superannuation	15(c)	**34,855**	28,315
Prepayments – other		**12,685**	6,190
Total trade and other receivables		**309,732**	173,754

Trade receivables are non-interest bearing. The Days Sales Outstanding (DSO) as at 30 June 2007 is 25.0 (2006: 21.7).

11 Inventories

	2007 $'000	2006 $'000
Stores and materials	**20,313**	18,991
NSW Greenhouse Gas Abatement Certificates	**341**	585
Total inventories	**20,654**	19,576

12 Assets Classified as Held for Sale

	2007 $'000	2006 $'000
Non-current assets held for sale	**11,180**	11,180
Total assets classified as held for sale	**11,180**	11,180

Non-current assets held for sale relate to under-utilised non-infrastructure land located at Schofields. A valuation of the site was performed by Rushtons as at 30 June 2005, and the asset is currently carried at the valued amount.

An agreement for deferred settlement was entered into, with instalments payable over four years. The final instalment payment is subject to a valuation process to determine the change in property value as at 30 September 2007, the final settlement date.

Notes to the Financial Statements

For the year ended 30 June 2007

13 Property Plant and Equipment

	Electricity Network $'000	Non-System Assets $'000	Street Lighting $'000	Total $'000
Year ended 30 June 2007				
Net carrying amount at 1 July 2006	2,423,235	273,603	46,791	2,743,629
Additions	351,585	42,597	15,236	409,418
Disposals	(2,916)	(6,615)	–	(9,531)
Revaluation	10,501	15,959	–	26,460
Depreciation charge for the period	(78,733)	(20,251)	(4,875)	(103,859)
Net carrying amount at 30 June 2007	2,703,672	305,293	57,152	3,066,117
At 1 July 2006				
Fair value	2,515,371	369,627	51,144	2,936,142
Accumulated depreciation and impairment	(92,136)	(96,024)	(4,353)	(192,513)
Net carrying amount at 1 July 2006	2,423,235	273,603	46,791	2,743,629
At 30 June 2007				
Fair value	2,874,541	421,568	66,380	3,362,489
Accumulated depreciation and impairment	(170,869)	(116,275)	(9,228)	(296,372)
Net carrying amount at 30 June 2007	2,703,672	305,293	57,152	3,066,117

In determining value in use for each Cash Generating Unit (CGU), the cash flows were discounted at a WACC rate on a pre-tax basis of 9.57% for the regulated network (including metering) CGU, and 9.32% for the street-lighting CGU.

If assets were measured using the cost model, the carrying amounts would be as follows:

	2007 $'000	2006 $'000
Electricity Network Assets		
At cost	**2,802,753**	2,621,801
Less accumulated depreciation	**(674,359)**	(595,626)
Total electricity network assets	**2,128,394**	2,026,175
Street Lighting Assets		
At cost	**137,768**	122,532
Less accumulated depreciation	**(78,793)**	(73,918)
Total street lighting assets	**58,975**	48,614
Non-system Assets		
At cost	**376,363**	330,961
Less accumulated depreciation	**(133,733)**	(104,879)
Total non-system assets	**242,630**	226,082
Total property, plant and equipment	**2,429,999**	2,300,871

Notes to the Financial Statements

For the year ended 30 June 2007

13 Property Plant and Equipment (continued)

	Electricity Network $'000	Non-System Assets $'000	Street Lighting $'000	Total $'000
Year ended 30 June 2006				
Net carrying amount at 1 July 2005	2,287,538	214,755	57,734	2,560,027
Additions	285,100	82,827	15,631	383,558
Disposals	(3,275)	(7,092)	–	(10,367)
Impairment	(95,673)	–	(22,221)	(117,894)
Revaluation	25,716	1,528	–	27,244
Depreciation charge for the period	(76,171)	(18,136)	(4,353)	(98,660)
Transfers	–	(279)	–	(279)
Net carrying amount at 30 June 2006	2,423,235	273,603	46,791	2,743,629
At 1 July 2005				
Fair value	2,908,625	306,306	125,708	3,340,639
Accumulated depreciation and impairment	(621,087)	(91,551)	(67,974)	(780,612)
Net carrying amount at 1 July 2005	2,287,538	214,755	57,734	2,560,027
At 30 June 2006				
Fair value	2,515,371	369,627	51,144	2,936,142
Accumulated depreciation and impairment	(92,136)	(96,024)	(4,353)	(192,513)
Net carrying amount at 30 June 2006	2,423,235	273,603	46,791	2,743,629

14 Intangible Assets

	Software $'000	Easements $'000	Total $'000
Year ended 30 June 2007			
Net carrying amount at 1 July 2006	33,619	5,474	39,093
Additions	21,613	3,706	25,319
Amortisation	(16,503)	–	(16,503)
Net carrying amount at 30 June 2007	38,729	9,180	47,909
At 1 July 2006			
Cost (gross carrying amount)	110,797	5,474	116,271
Accumulated amortisation and impairment	(77,178)	–	(77,178)
Net carrying amount at 1 July 2006	33,619	5,474	39,093
At 30 June 2007			
Cost (gross carrying amount)	132,410	9,180	141,590
Accumulated amortisation and impairment	(93,681)	–	(93,681)
Net carrying amount at 30 June 2007	38,729	9,180	47,909
Net carrying amount at 1 July 2005	46,026	5,096	51,122
Additions	5,288	378	5,666
Transfers	279	–	279
Disposals	(1)	–	(1)
Amortisation	(17,973)	–	(17,973)
Net carrying amount at 30 June 2006	33,619	5,474	39,093

Notes to the Financial Statements

For the year ended 30 June 2007

14 Intangible Assets (continued)

	Software $'000	Easements $'000	Total $'000
At 1 July 2005			
Cost (gross carrying amount)	106,953	5,096	112,049
Accumulated amortisation and impairment	(60,927)	–	(60,927)
Net carrying amount at 1 July 2005	46,026	5,096	51,122
At 30 June 2006			
Cost (gross carrying amount)	110,797	5,474	116,271
Accumulated amortisation and impairment	(77,178)	–	(77,178)
Net carrying amount at 30 June 2006	33,619	5,474	39,093

15 Employee Benefits – Superannuation

(a) Superannuation plans

Integral Energy has a defined benefit superannuation plan, covering a significant number of employees, which requires contributions to be made to a separately administered fund.

The superannuation plan provides for defined benefits based on years of service and final average salary. Employees contribute to the plan at various percentages of their wages and salaries. Integral Energy also contributes to the plan, generally at the rate of twice the employees' contributions. Contributions by Integral Energy of up to 9% of employees' wages and salaries are legally enforceable in Australia.

The following tables summarise the components of net benefit expense recognised in the Income Statement and the funded status and amounts recognised in the Balance Sheet for the plan.

Accounting policy for recognising actuarial gains/losses

Actuarial gains and losses are recognised in profit or loss in the year they occur.

General description of the type of plan

The Energy Industries Superannuation Scheme

Division B

Division C

Division D

These Divisions are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All divisions are closed to new members.

(b) Amounts recognised in the Income Statement

	2007 $'000	2006 $'000
Amounts recognised in the Income Statement are as follows:		
Actuarial gains or (losses)	**(3,165)**	24,343
Total included in employee benefits revenue/(expense)	**(3,165)**	24,343

Assets invested in entity or in property occupied by the entity

All Scheme assets are invested by the trustee at arm's length through independent Scheme managers.

Notes to the Financial Statements

For the year ended 30 June 2007

15 Employee Benefits – Superannuation (continued)

(c) Amounts recognised in the Balance Sheet

	2007 $'000	2006 $'000
Amounts recognised in the balance sheet are as follows:		
Present value of funded obligations	**(287,875)**	(253,193)
Fair value of plan assets	**322,730**	281,508
Net asset/(liability) in the Balance Sheet	**34,855**	28,315

(d) Reconciliation of the present value of defined benefit obligation

	2007 $'000	2006 $'000
Present value of defined benefit obligations at beginning of the year	**253,193**	241,975
Current service cost	**9,639**	6,197
Interest cost	**15,600**	13,467
Contributions by scheme participants	**4,277**	3,778
Actuarial (gains)/losses	**22,054**	(68)
Benefits paid	**(16,888)**	(12,156)
Present value of defined benefit obligations at the end of the year	**287,875**	253,193

(e) Reconciliation of the fair value of scheme assets

	2007 $'000	2006 $'000
Fair value of scheme assets at beginning of the year	**281,508**	237,325
Expected return on scheme assets	**21,072**	17,864
Actuarial gains/(losses)	**23,056**	26,075
Employer contributions	**9,705**	8,622
Contributions by scheme participants	**4,277**	3,788
Benefits paid	**(16,888)**	(12,156)
Fair value of scheme assets at the end of the year	**322,730**	281,518

(f) Total expense recognised in Income Statement

	2007 $'000	2006 $'000
Current service cost	**9,639**	6,197
Interest on obligation	**15,600**	13,467
Expected return on plan assets	**(21,072)**	(17,864)
Net actuarial losses/(gains) recognised in year	**(1,002)**	(26,143)
Total included in other income	**3,165**	(24,343)

(g) Actual return on plan assets

	2007 $'000	2006 $'000
Actual return on plan assets	**41,058**	42,372
	41,058	42,372

Notes to the Financial Statements

For the year ended 30 June 2007

(h) Valuation method and principal economic assumptions

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

The principal actuarial assumptions used in determining pension and post-employment benefit obligations for the Corporation's plans are shown below (expressed as weighted average):

	2007 %	2006 %
Discount rate	**5.90**	5.40
Anticipated return on plan assets	**7.60**	7.60
Expected future salary increases *	**6.00**	4.00
Future CPI increases	**2.50**	2.50

* Expected future salary increase are assumed to be 6.0% until June 2009, and then 4.0% thereafter.

(i) Arrangements for employer contributions for funding

The following is a summary of the 30 June 2007 financial position of the Scheme calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*.

	2007 $'000	2006 $'000
Accrued benefits	**272,760**	229,146
Net market value of Scheme assets	**(322,730)**	(281,508)
Net (surplus)/deficit	**(49,970)**	(52,362)

Recommended contribution rates for the entity are:

Div B = 1.90 x member contributions

Div C = 2.5% x salaries

Div D = 1.64 x member contributions

The method used to determine the employer contribution recommendations at the last actuarial review was the *Aggregate Funding* method. The method adopted affects the timing of the cost to the employer.

Under the *Aggregate Funding* method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

(j) Nature of asset/liability

If a surplus exists in the employer's interest in the Scheme, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Scheme's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of Scheme assets and the defined benefit obligation.

16 Trade and Other Payables

	2007 $'000	2006 $'000
Trade payables	**41,013**	38,327
Accruals	**267,640**	132,359
Other payables	**21,947**	16,390
Total trade and other payables	**330,600**	187,076

Trade and other payables are non-interest bearing and are normally settled within 38.6 days. The net of GST payable and GST receivable is remitted to the appropriate tax body on a monthly basis.

Notes to the Financial Statements

For the year ended 30 June 2007

17 Other Current Liabilities

	2007 $'000	2006 $'000
Deposits and retentions	**19,004**	14,564
Unearned income	**14,378**	13,004
Total other current liabilities	**33,382**	27,568

18 Interest-bearing loans and borrowings

	Effective interest rate	**2007 $'000**	2006 $'000
Current			
Unsecured bank loans			
Floating rate loans	6.5%	**242,965**	307,965
Fixed rate loans	6.8%	**112,925**	85,199
Total current interest-bearing loans and borrowings		**355,890**	393,164
Non-current			
Unsecured bank loans			
Fixed rate loans	6.4%	**1,175,567**	988,451
Total non-current interest-bearing loans and borrowings		**1,175,567**	988,451

Bank loans are unsecured and repayable in full on various maturity dates. Interest rates are based on weighted average effective rates on the entire debt.

19 Provisions

(a) Movement in carrying amounts

	Employee Benefits $'000	Self Insurance $'000	Other $'000	Total $'000
Opening balance at 1 July 2006	**168,827**	**26,190**	**17,555**	**212,572**
Additional provisions	**119,839**	**9,397**	**7,827**	**137,063**
Utilised during the period	**(117,708)**	**(9,569)**	**(13,557)**	**(140,834)**
Reversed during the period	**–**	**(16,604)**	**(2,981)**	**(19,585)**
At 30 June 2007	**170,958**	**9,414**	**8,844**	**189,216**

(b) Analysis of Total Provisions

	2007 $'000	2006 $'000
Current	**104,206**	129,521
Non-current	**85,010**	83,051
Total provisions	**189,216**	212,572

Included within the current provision for employee benefits are amounts totalling $60.9m that are expected to be settled after more than 12 months.

Other provisions – specific other provisions are not detailed due to commercial and legal sensitivity.

Notes to the Financial Statements

For the year ended 30 June 2007

20 Other Non-Current Liabilities

	2007 $'000	2006 $'000
Deposits and retentions	**10,900**	12,150
Deferred income	**1,330**	1,906
Total other non-current liabilities	**12,230**	14,056

21 Reserves

(a) Asset Revaluation Reserve

The asset revaluation reserve is used to record increments and decrements in the fair value of property, plant and equipment to the extent that they offset one another. The reserve can only be used to pay dividends in limited circumstances. Refer to the Statement of Changes in Equity for movements in the asset revaluation reserve during the period.

(b) Hedge Reserve

The hedge reserve records revaluations of items designated as hedges. Refer to the Statement of Changes in Equity for movements in the hedge reserve during the period.

22 Financial Instruments

(a) Financial Risk Management Objectives and Policies

The Corporation's principal financial instruments, other than derivatives, comprise bank loans, cash and short-term deposits. The main purpose of these financial instruments is to raise finance or invest surplus cash for the Corporation's operations.

The Corporation has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. The Corporation also enters into derivative contracts for the purpose of managing exposure of the Corporation's operations to the National Electricity Market (NEM) pool prices.

The main risks arising from the Corporation's financial instruments are interest rate risk, liquidity risk, electricity purchase risk exposures and credit risk. The board reviews and agrees policies for managing each of these risks, as summarised below.

The Corporation also monitors the market price risk arising from all financial instruments. Accounting policies in relation to derivatives are set out in Note 2(u).

(b) Interest Rate Risk

The Corporation's exposure to market risk for changes in interest rates relates primarily to interest bearing liabilities. The Corporation's policy is to manage its interest cost using a mix of fixed and variable rate debt.

(c) Liquidity Risk

The Corporation's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and debt. The Corporation's policy is to manage its debt by using a duration approach. At 30 June 2007 the Corporation's debt duration was within the policy limits approved by the Board.

(d) Electricity Purchase Risk Exposure

Integral Energy enters into derivative contracts to manage the exposure of the Corporation to the National Electricity Market (NEM) pool prices. NEM pool exposure arises where Integral Energy requires energy purchases from the pool at the variable pool price, to meet load requirements.

Integral Energy uses a combination of swap, option and futures contracts transacted with generators and energy trading operators in its hedging strategy, to hedge customer load and control its exposure to NEM pool prices.

Notes to the Financial Statements

For the year ended 30 June 2007

22 Financial Instruments (continued)

(e) Credit Risk

Credit risk is the risk of financial loss arising from another party to a contract, or financial position failing to discharge a financial obligation thereunder. Integral Energy's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Balance Sheet.

Credit risk on derivative contracts recognised in the Balance Sheet is minimised due to Integral Energy having policies in place which prevent excessive counterparty concentration, and limit individual counterparty exposure based on an assessment of individual counterparties credit worthiness.

Integral Energy controls risk through the use of credit ratings, limits and monitoring procedures, and does not usually require collateral or other security to support financial instruments with credit risk.

Integral Energy does not have any significant exposure to any individual customer or counterparty outside Board approved counter party limits.

(f) Net Fair Value

Set out below is a comparison of net fair values and carrying amounts of financial assets and financial liabilities that are carried in the financial statements at other than fair values:

	2007		2006	
	Carrying amount $'000	**Net Fair value $'000**	Carrying amount $'000	Net Fair value $'000
Financial Assets				
Other financial assets (current)	**48,815**	**48,815**	1,630	1,630
Derivative financial assets – cash flow hedges	**426,869**	**426,869**	13,693	13,693
Derivative financial assets – held for trading	**59,476**	**59,476**	9,641	9,641
Total	**535,160**	**535,160**	24,964	24,964
Financial Liabilities				
Interest bearing loans and borrowings:				
Floating rate borrowings	**242,965**	**245,928**	307,965	310,390
Fixed rate borrowings	**1,288,492**	**1,272,360**	1,073,650	1,091,854
Derivative financial liabilities – cash flow hedges	**–**	**–**	2,124	2,124
Derivative financial liabilities – held for trading	**56,944**	**56,944**	5,631	5,631
Total	**1,588,401**	**1,575,232**	1,389,370	1,409,999

Notes to the Financial Statements

For the year ended 30 June 2007

(g) Interest rate risk

The following table sets out financial instruments that are exposed to interest rate risk:

	<1 year $'000	>1-<2 years $'000	>2-<3 years $'000	>3-<4 years $'000	>4-<5 years $'000	>5 years $'000	Total $'000
2007							
Floating rate							
Assets							
Other financial assets	48,815	–	–	–	–	–	48,815
Liabilities							
Bank overdraft	3,387	–	–	–	–	–	3,387
Interest bearing liabilities	242,965	–	–	–	–	–	242,965
Interest rate contracts	(55,000)	–	–	–	–	–	(55,000)
Fixed rate							
Liabilities							
Interest bearing liabilities	112,925	46,019	134,564	186,979	103,545	704,460	1,288,492
Interest rate contracts	(10,000)	–	60,000	(20,000)	–	25,000	55,000
2006							
Floating rate							
Assets							
Other financial assets	1,630	–	–	–	–	–	1,630
Liabilities							
Bank overdraft	451	–	–	–	–	–	451
Interest bearing liabilities – unsecured bank loans	307,965	–	–	–	–	–	307,965
Interest rate contracts	(55,000)	–	–	–	–	–	(55,000)
Fixed rate							
Liabilities							
Interest bearing liabilities – unsecured bank loans	85,199	112,780	46,019	89,564	177,365	562,723	1,073,650
Interest rate contracts	–	(10,000)	–	60,000	(20,000)	25,000	55,000

Refer to Note 18 for disclosure of effective interest rates.

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the investment. Other financial instruments of the Corporation not included in the above tables are non-interest bearing and therefore not subject to interest rate risk.

(h) Cash Flow Hedges

At 30 June 2007 Integral Energy held derivative contracts to reduce the exposure of the Corporation to the National Electricity Market (NEM) pool prices. The cash flows are expected to occur, and will enter into the determination of profit and loss over forthcoming years ending 2010.

Notes to the Financial Statements

For the year ended 30 June 2007

23 Contingent Liabilities and Contingent Assets

(a) Contingent Assets

	2007 $'000	2006 $'000
Sundry General Claims	**1,200**	–
	1,200	–

(b) Contingent Liabilities

	2007 $'000	2006 $'000
Self Insurance	**332**	522
WorkCover Authority	**1,850**	1,850
Sundry General Claims	**229**	4,732
	2,411	7,104

The contingent asset relates to a contractual dispute. The contingent liabilities relate to injury claims (self insurance), possible penalties and legal costs (WorkCover Authority), and other employment related claims (sundry general claims).

The directors are not aware of any circumstances or information that would lead them to believe that the above contingent liabilities will crystallise, and consequently no provisions are included in the accounts in respect of these matters.

Notes to the Financial Statements

For the year ended 30 June 2007

24 Expenditure Commitments

(a) Operating Expenditure Commitments

	2007 $'000	2006 $'000
Estimated operating expenditure contracted for at reporting date, but not provided for, payable:		
Within one year	**131,457**	127,874
After one year but not more than five years	**191,838**	195,214
More than five years	**119,445**	145,187
Total operating expenditure commitments	**442,740**	468,275

(b) Lease Expenditure Commitments

	2007 $'000	2006 $'000
Operating leases (non cancellable):		
Within one year	**2,031**	2,917
After one year but not more than five years	**2,826**	2,419
More than five years	**526**	575
Total lease expenditure commitments	**5,383**	5,911

(c) Capital Expenditure Commitments

	2007 $'000	2006 $'000
Estimated capital expenditure contracted for at reporting date, but not provided for:		
Within one year	**137,148**	114,973
After one year but not more than five years	**12,588**	6,939
Total capital expenditure commitments	**149,736**	121,912

(d) Smithfield Energy Purchase Contract Operating Expenditure Commitments

	2007 $'000	2006 $'000
Estimated operating expenditure contracted for at reporting date, but not provided for:		
Within one year	**86,368**	80,332
After one year but not more than five years	**349,734**	344,421
More than five years	**1,321,210**	1,415,920
Total Smithfield energy purchase contract operating expenditure commitments	**1,757,312**	1,840,673

The Corporation leases property under operating leases expiring from one to five years. Leases generally provide the entity with a right of renewal, at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

Total expenditure commitments include input tax credits of $213.7m (2006: $221.2m) which are expected to be recovered from the Australian Taxation Office.

25 Events After the Balance Sheet Date

The valuation of derivatives is subject to market volatility. A review of forward market prices has been performed subsequent to year end. An analysis of forward market prices as at 31 July 2007 indicated that the value of the Corporation's electricity derivative hedge reserve had decreased by approximately $365 million.

With the exception of electricity derivatives there has not arisen, in the interval between the end of the financial period and the date of this report, an event of a material and unusual nature likely, in the opinion of the Directors of the Corporation, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity, in subsequent financial years.

Notes to the Financial Statements

For the year ended 30 June 2007

26 Auditor's Remuneration

	2007 $'000	2006 $'000
Amounts received or due and receivable by the Auditor-General for:		
– Auditing the Financial Report	**311**	305
Total auditor's remuneration	**311**	305

27 Key Management Personnel

(a) Directors' Appointments

The following information is provided regarding appointment of Non-Executive Directors:

Re-appointments

Michael McLeod (re-appointed 1 March 2007)

Paul Sinclair (re-appointed 21 August 2006)

Continuing Directors

Terry Downing

John Fahey

John Fletcher

Richard Powis (Chief Executive Officer – Executive Director)

Emma Stein

(b) Directors' Remuneration

	Salaries & Fees $'000	Superannuation Contribution $'000	Total $'000
2007			
M McLeod	**110**	**10**	**120**
T Downing	**70**	**6**	**76**
J Fahey	**66**	**6**	**72**
J Fletcher	**64**	**6**	**70**
P Sinclair	**59**	**5**	**64**
E Stein	**64**	**6**	**70**
Total	**433**	**39**	**472**
2006			
M McLeod	108	10	118
T Downing	69	6	75
J Fahey	66	6	72
J Fletcher	21	2	23
J Reid	42	4	46
P Sinclair	48	4	52
E Stein	64	6	70
Total	418	38	456

Notes to the Financial Statements

For the year ended 30 June 2007

27 Key Management Personnel (continued)

(c) Executive Remuneration

	Salaries & Fees $'000	Superannuation Contribution $'000	Cash Bonus $'000	Non-cash Benefits $'000	Total $'000
2007					
R Powis	**490**	**42**	**62**	**8**	**602**
A Flett	**261**	**29**	**41**	**14**	**345**
R Howard	**268**	**30**	**48**	**8**	**354**
D Lucas	**159**	**19**	**–**	**3**	**181**
B Rowley	**255**	**29**	**40**	**10**	**334**
K Waldman	**256**	**29**	**41**	**14**	**340**
I White	**214**	**24**	**12**	**15**	**265**
H El-Ansary	**28**	**2**	**–**	**–**	**30**
S Lowe	**226**	**16**	**40**	**7**	**289**
A Priestley	**26**	**2**	**–**	**13**	**41**
M Tweddell	**55**	**6**	**–**	**–**	**61**
J Wallace	**210**	**4**	**46**	**15**	**275**
Total	**2,448**	**232**	**330**	**107**	**3,117**
2006					
R Powis	465	35	57	8	565
C James	113	11	53	7	184
A Flett	248	26	51	10	335
R Howard	253	26	51	8	338
S Lowe	253	14	38	10	315
A Priestley	262	16	28	29	335
B Rowley	238	25	37	25	325
K Waldman	246	25	38	21	330
J Wallace	256	4	32	40	332
H El-Ansary	83	6	–	–	89
I White	77	8	–	–	85
Total	2,494	196	385	158	3,233

The cash bonus for 2006/07 and 2005/06 relates to payments in relation to the 2005/06 and 2004/05 financial years respectively.

28 Prudential Requirements

An unsecured Bank Guarantee of $325.3m (2005/06: $103.3m) is given to the National Electricity Marketing Management Co. Ltd. (NEMMCO) by way of a New South Wales Treasury Corporation guarantee. The guarantee is a condition of Integral Energy Australia's trading licence.

29 Related Party Transactions

Directors

The name of each person who held or is holding the position of director of Integral Energy during the financial period is set out in Note 27 above.

Details of directors' remuneration is set out in Note 27 above.

There were no declared director related party transactions for the 2006/07 financial year.

End of audited Financial Statements

Statement by Directors

For the year ended 30 June 2007

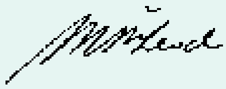
Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, we state that in the opinion of the Directors of Integral Energy Australia:

(a) The accompanying financial statements and notes are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and the *Regulation 2005*, and Accounting Interpretations, and give a true and fair view of the financial position of Integral Energy Australia as at 30 June 2007 and its financial performance for the year ended on that date.

(b) At the date of this statement, there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

(c) We are not aware of any circumstances at the date of this statement that would render any particulars included in the financial report to be misleading or inaccurate.

This declaration is made in accordance with a resolution of the Board of Directors.



Michael McLeod
Director
4 September 2007

Richard Powis
Director
4 September 2007